Minutes

Meeting of Special Commission to Investigate Other Post-Employment Benefits

Room 157, State House, Boston, MA

April 5, 2012

Attendees

Commission Members:

Henry Dormitzer, Chairman of the Special Commission
Representative John Scibak, House Chairman of the Joint Committee on Public Service
Daniel Morgado, Shrewsbury Town Manager, Massachusetts Municipal Association
Shawn Duhamel, Retired State, County and Municipal Employees Association of Massachusetts
Dolores Mitchell, Executive Director of the Group Insurance Commission
Representative Frederick Barrows
Gregory Mennis, Assistant Secretary for Fiscal Policy, Designee of Secretary of Administration & Finance Jay Gonzalez
Nick Favorito, Director of the State Retirement Board, substituting for Al Gordon, Designee of Treasurer Steven Grossman
Andrew Powell, Massachusetts AFL-CIO

Other Participants:

Robert Johnson, Deputy Director of the Group Insurance Commission
Anne Wass, Past President of the Massachusetts Teachers Association
Janet Fogel, Deputy General Counsel, Executive Office for Administration and Finance
Catharine Hornby, General Counsel, Group Insurance Commission
Thomas Vicente, Actuary, Office of the Comptroller
Katie McCue, Legislative Analyst, Massachusetts Municipal Association
Carolyn Ryan, Mass Taxpayers Foundation

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Mr. Dormitzer made note of the fact that a report of the Commission is due by November 30th and that the Governor filed legislation to obtain co-chairs of this commission. Next, a motion was made to permit members' remote participation, which was passed unanimously. The Commission Members each introduced themselves, and Mr. Dormitzer described the workplan for the commission. Based on the November 30th report date, the Chair suggested six meetings between now and then with one month of summer off. The first two meetings will be to discuss information with four presenters scheduled on the first meeting. In meetings three and four, we'll talk about our options for dealing with these issues and discuss scenarios. At meetings five and six we should discuss recommendations from all of that, and review drafts from writing. Perhaps we could hold public hearings as well, or have an open e-mail box. It was also agreed that the next meeting would be on May 31 at 10:00 a.m.

Commission members then turned their attention to the first presentation from Catharine Hornby, general counsel for GIC. The legal framework of state health insurance law is Chapter 32A. Depending on the date of retirement, the rate retirees pay varies. Municipal retirees' benefits – a key difference from state benefits is that there is more flexibility over contribution ratios. Municipalities can pay different rates; usually 50% to 90% per municipality. Municipalities are starting to join the state system. This is a big issue for GIC. Municipalities may also opt to mirror GIC benefits. Contribution ratios continue to be locally determined. Unlike pensions systems, contributions to GIC employee benefits don't create contractual rights to later retiree benefits. Pension rights are already earned – health insurance is a matter for the future.

Commission members and Ms. Hornby discussed the requirements to received benefits including full-time vs. part-time requirements, and the requirement for 10 years of credible service.

Ms. Hornby read the definition of "retirees" under the CMR and further described the GIC plans. GIC administers a mix of self-insured and fully insured plans. About 85% of our system is self-insured. This means that we pay the administrative fee to the health plans to administer benefits, and the GIC reimburses the plan for claims and takes the risk. Our costs on this side are administrative costs and claims costs minus out of pocket expenses.

As far as the fully-insured plans, we pay the premium, and the plan bears the risk. For large populations it's more cost effective to self-insure. With Medicare plans, the person pays the premium for Medicare, and we offer a plan for supplemental coverage. We are cost sharing here with the federal government.

Ms. Mitchell described Medicare advantage, a subcategory in Medicare plans. Some are Medicare advantage. These are very controversial because there's a perception that they're heavily subsidized. The idea was that they'd be HMO-like – a managed Medicare plan where you couldn't go to just any doctor. Gradually their price advantages diminished, so they're subsidized less heavily today. They attract the younger retirees.

Catharine Hornby further explained that there are non-Medicare plans for non-Medicare eligible people – including people under 65 years old. These folks benefit from being in a pool of younger, healthier people. According to a report from the budget director, our expenses have gone up significantly in ten years and more so in the past five. Our growth in enrollment is from taking in municipalities. Municipal retirees are a little older than the state population.

Another big population is the early retiree population, which has grown a lot more in last 5 years. Most people who are 65 and older are usually on Medicare, but a few are not eligible.

Representative Barrows asked whether there was more information about actual claim costs per age, and Mr. Dormitzer asked what percentage of retiree health care costs is attributable to those younger than 65. The reason non-Medicare retirees' costs are higher, explained Ms. Hornby is because they are retiring early and have health issues. Cost per capita differences are even more striking. It's a very expensive population for us. Increasingly private employers lack retiree health plan packages. Mr. Favorito asked if GIC looked at tiers.

Ms. Mitchell noted that GIC is asked this question sometimes. If there are two adults, nine out of ten times they are both working and can afford a higher premium, but the disadvantaged group is the single parent with a child. If people with larger families will pay more money, it would help. But that's a policy issue for the Legislature. It would work if they gave us more money.

Mr. Mennis asked whether some of the growth in GIC spending was the result of an aging population. Ms. Mitchell confirmed that this was the case. The Commission then turned its attention to Thomas Vicente, an actuary from Aon Hewitt, who works for the state comptroller's office. He explained that his charge was to take program retiree medical benefits and turn them into what the economic value is to record this as a form of liability. GASB (the Governmental Accounting Standards Board) tells what an entity must put on the balance sheet. We take the economic value and treat it as deferred compensation. We give the public employee something in exchange for his or her work. We measure the future and make assumptions about what's going to happen. We take all claims from GIC and manipulate them. About $10,000 is the annual cost of retiree health care for those under 65. It's about $4,700 per year for those over 65. Only a small population is given benefits for life with their dependents covered. The longer a retiree receives benefits, the larger the state's cost. There is also a discount rate -- a stream of payments converted into today's dollars by discounting the time value of money. For example, if a 62 year old man retired in 2011, the value of his benefit would be $118,000.

Representative Barrows inquired as to how many years one needs to work to accumulate that amount. Mr. Vicente responded that as long as a retiree had 10 years, it could be 10 or 40 years, at least 10 years of full time service. Over a 30-year period, the state liability was associated with $37,000,000,000 for medical benefits.

Mr. Vicente answered several questions about the actuarial valuation process and explained that a retiree has accumulated this benefit, so retirees are drawing down, and the actives are accumulating. For the entire group who is working and expected to include dependents, we've allocated to them about $8,000,000 for when they retire.

Mr. Duhamel asked whether we could extrapolate how much of that liability is attributable to early retirees. Mr. Vicente and the commissioners agreed to follow up on this issue. Mr. Mennis confirmed that $400 Million is what the state budget appropriates for retiree health care and that $1.3 Billion is what the accounting says we need.

Ms. Waas asked whether raising the retirement age from 55 to 60 affects this in a positive way. Mr. Vicente confirmed that this would eventually be the case.

Representative Scibak made the point that the significance is that those individuals will go on Medicare right when they retire, which will create considerable savings.

Representative Barrows asked whether recent surveys show many have retirement supplemental coverage over their Medicare. Mr. Vicente indicated that he had seen surveys that a lot of organizations that provided medical coverage do it as a supplement. In Pennsylvania, for example, teachers get continuing medical coverage from their districts until they are 65 years old, then they get nothing, they just go on Medicare. The philosophy on benefits is to achieve a balance between service and reward.

The Commission than turned its attention to a presentation by Katie McCue, legislative analyst with MMA. The basic general definition of OPEB is benefits that retirees get other than their pension, which is mostly health insurance. There is a significant impact on municipalities for this large liability. Health care rates are rising at an unsustainable rate. Most private companies have eliminated this benefit. The OPEB liability nationally is $1,260,000,000,000. In Massachusetts it's $25,000,000,000-30,000,000,000. For FY 2012, there was a $20,000,000,000 unfunded liability for the 50 largest municipalities in Massachusetts. For Worcester and Brockton, the OPEB liabilities were substantially higher than pension liabilities. Each homeowner would need to pay about $20,000 to close the gap.

Mr. Dormitzer asked what "property tax increase" mean? Ms. Ryan explained that if you were to pay off the liability today, it would be $19,000 for each homeowner for Brockton – a one-time payment. Or, a percentage increase to the average family tax bill – a one-time 15% increase that stays in place for 30 years.

Ms. McCue added that the differences between municipalities and the state are the premium split. There are more than double the number of municipal employees than state employees, and public safety/hazardous employees retire earlier.

Mr. Dormitzer thanked the presenters and made note of a list of questions to follow-up on for the next meeting. Ms. Mitchell asked whether any states were doing a job that's enviable that we should discuss. Mr. Mennis concurred and suggested that the Commission review work that had been completed by the Boston College Center for Retirement Research. Mr. Favorito asked if the Health Care Security Trust could present information at the next meeting.

Mr. Dormitzer asked for additional information around the nature of the obligation. Ms. Fogel explained that for the state, the level is set by law and as a threshold can't go below 75%. Different percentages are paid depending on when an individual retires. For municipalities there are various options about what percent a municipality will be bound to pay. Amounts above are negotiated through collective bargaining.

Mr. Dormitzer listed follow-up items including age bands for cost and group, private sector retirement benefits, liabilities attributed to part-time workers, municipal liability, what portion of all spending is attributable to early retirement, retiree health benefits, what is the growth in pay in retirement health benefits for municipalities, other state comparisons from the Boston College center for comparison, the investor perspective, proportional coverage dependent upon service, and if someone has 10 years of service at 55 years of age, would you pay more than someone who works 20 years and retires at 55.

Finally, Ms. Wass asked whether we have current info of the number of communities that are at the 50-50 split.

The motion to adjourn the meeting passed unanimously.